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Grain and Feed

Grain and Oilseeds Market Update

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Report Highlights:

Record high grain and oilseeds prices and tight seed supplies have severely impacted many farmers and have pushed up food prices. Since September 2007, farmers have reported mass culling of livestock; feed corn imports into Bulgaria this year are likely to be weaker than initially expected. Currently, Bulgaria sells wheat, sunflower, and sunoil to countries in the Balkans/Black Sea region, and imports corn from Hungary, Greece and Brazil. Wheat is imported from Russia. In recent months, there have been large street protests by farmers over insufficient domestic support. In January 2008, the GOB Anti-Trust Commission fined a number of vegetable oil manufacturers for allegedly forming a cartel to push up prices.

Includes PSD Changes: No

Includes Trade Matrix: No

Annual Report

Sofia [BU1]

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Supply

MY07/08 crop estimates

The official Ministry of Agriculture estimates for wheat production were revised in post harvest time and increased to 2.4 MMT from the previous 2.2 MMT (average yield of 2.2 MT/HA, 1.09 million HA harvested). FAS/Sofia wheat estimate is unchanged at 2.2 MMT and is shown in Table1.

Wheat quality was reported to be very good, according to the National Grain and Feed Agency. However, milling industry sources indicated that the quality was not satisfactory and the mills had to use additives/improvers such as gluten. Still, no trade representatives have indicated any significant need for imports of high quality milling wheat for blending with local wheat.

Due to severe drought, corn production in MY2007/2008 dropped to 250,000 MT – 270,000 MT thus creating a significant feed deficit (see BU7025). FAS/Sofia estimates corn crop at little higher than the official data, 270,000 MT vs 257,000 MT, due to farmers' reports for harvested but non-registered stocks. The sunflower crop was at 545,000 MT or 54 percent lower than in MY2006/2007.

MY08/09 crops estimates

Wheat and barley: The fall planting started in difficult dry conditions but the rainfall in late September/October was sufficient (50-70 liters/sq.m) to provide good soil moisture levels. In late October/early November, heavy rains disrupted the normal planting pace, and the field works were renewed only later in the month, after the optimal planting time. It is estimated that about 30 percent of wheat was planted late.

Planted areas estimates vary from 0.98 million HA to 1.1 million HA for wheat, and close to 0.200 million HA for barley. Please, see Table2 for FAS/Sofia estimates.

Since December to date, the weather has been almost ideal for the winter crops development with a deep snow cover and temperatures below or around zero. Currently, farmers evaluate crops' status as very good to excellent and expect above average yields.

Rapeseeds: The most significant was the increase in winter rapeseeds areas. Official estimates show double higher areas compared to MY07/08, to 92,000-95,000 HA. Industry estimates go as far as 120,000 HA. This growth was mainly at the expense of reduced wheat area, and some other minor grains. The interest to rapeseeds is related to high prices, stable EU demand for biodiesel, energy premiums, and crop's dry resistance.

The weather conditions for rapeseeds were very good with sufficient snow cover, unlike in some other Black Sea countries. In this situation, the MY08/09 crop output may reach 190,000 MT-200,000 MT or more than double than in MY07/08.

Corn and Sunflower: Although it is still early to make production estimates, it is very likely that farmers plans for higher planted areas under corn may not come true due to expected shortage of corn planting seeds. According to seed suppliers, last year drought in the region and in some EU member states, high demand in Ukraine and Russia, and limited stocks from the U.S. and some Latin American countries, may all lead to limited seeds supply. In addition, seed companies report that strong global demand for various biotech hybrids makes sourcing of non-biotech planting seeds increasingly difficult and more expensive.

For this reason, the industry expects a slight reduction in planted areas compared to MY07/08 to 300,000 HA. Bulgarian farmers are using for 95-98 percent of their fields corn hybrids, and rely on about 60 percent of their needs to be met from imports. According to regional seed suppliers, the situation is similar in all Balkan countries as the reduction in corn areas might be more significant on those markets which use local varieties and not certified hybrid seeds.

Due to the above challenges, farmers are already planning to expand sunflower area which is likely to lead to a violation in the normal crop rotation and potential problems with pests, diseases, yields and quality. Another motivation for this change is the record high prices of oilseeds and vegetable oils. Currently, FAS/Sofia estimates sunflower area to reach 700,000 HA.

Trade

Exports and Imports

The grain trade in MY2007/2008 was marked by record high prices, local deficits, lack of accurate official production and trade information, and unclear government policies. The Ministry of Agriculture had difficulties tracking the grain and oilseeds flows due to lack of complete statistical and customs information due to EU technical accession issues. This negatively affected the quality of the official analysis and forecasts which in turn, had an impact on the respective policies. It is expected that in 2008 the Ministry of Agriculture will improve its analysis and outlook capacity based on introduction of more reliable information technologies and data collection techniques.

See Table3 for FAS/Sofia estimates for exports, imports and S&D estimates.

Wheat: According to the industry, about 200,000 MT of MY07/08 wheat crop was and is being sold to Greece, Romania, Morocco, and Macedonia. The Ministry of Agriculture expects that the overall wheat exports in MY07/08 will not exceed 150,000 MT and imports will be about 100,000 MT. According to industry data, wheat exports as of December were 90,000 MT- to Romania (45,000 MT), Greece (23,000 MT), Morocco (14,000 MT) and Macedonia (5,000 MT). In January 08, wheat and wheat flour is being sold to Romania. Many traders think that wheat sold to Greece and Romania without proper tax registration (VAT) exceeds official data.

Imports were at 40,000 MT, mainly from Russia (30,000 MT), Austria, and Hungary.

Barley: Barley exports in MY07/08 to date were reportedly at 130,000 MT, to non-EU destinations such as Saudi Arabia (98,000 MT), Tunisia (10,000 MT), Morocco (7,000 MT); and to the EU, Greece (13,000 MT). Total exports in MY07/08 are likely to reach 150,000 MT.

Rye: According to industry sources, Bulgaria purchased Russian rye in September-October 2007 but no information about quantities is available at this point.

Corn: Traders as well as the GOB continue to debate about country's import needs. Initial import needs were estimated at more than 1.2 MMT with possible origins Hungary and/or Latin America (Brazil), including poultry and pork industries demand for about 1.0 MMT; and additional 150,000 MT- 200,000 MT of corn for industrial use due to expanded starch processing capacity.

Imports in MY07/08 to date were over 220,000 MT of which 110,000 MT for starch manufacturing and 110,000 MT for the feed industry. Corn was imported from Hungary (110,000 MT), Greece (3,000 MT) and Brazil (110,000 MT).

With the new high prices and reduced poultry and pork production, import estimates are being revised by industry players. Today, most traders think that Bulgaria will not import more than total 200,000 MT of corn for starch and 220,000 MT for feed in MY07/08. The Ministry of Agriculture estimates feed corn import needs at 500,000 MT. Total corn imports in MY07/08 are currently forecasted by FAS/Sofia at 450,000 MT.

In the fall of 2007, the GOB encouraged livestock farmers/traders to participate in tenders for purchases of Hungarian intervention corn. However, only small quantities from these stocks were actually imported (below 20,000 MT). Current imports reportedly come from non-intervention stocks.

In early January 2008, the Ministry of Agriculture officially announced its intentions to import 200,000 MT of corn from Ukraine – a policy which was not welcome by the grain traders and was considered as an effort to push farmers to sell stocks at lower prices. A high level Ministry of Agriculture delegation plans to visit Kiev in February for negotiations. If agreement is reached, it is likely that corn may go for refilling of the State Reserve stocks. However, independent regional experts consider this effort as not realistic due to the tight supply and functioning quota system in Ukraine.

Rapeseeds: Rapeseeds exports to date were at 40,000 MT, according to traders. Major destinations were Turkey, Pakistan (16,000 MT), Israel and Romania (16,000 MT).

Soybean meal: Imports of soybean meal since July to date were reported at 75,000 MT of which Brazil had the highest share with 54,000 MT. The United States were second with the first commercial shipment of hi-pro meal for the last several years. Argentina, which was absent from the market lately, renewed its shipments late in 2007.

Sunflower and products: Various sources indicate different sunflower trade data for the period Sep.1- Dec 31, 2007: preliminary official information shows exports at 48,000 MT; the industry estimates are for about 85,000 MT (of which Turkey - 45,000 MT and Romania - 30,000 MT); Turkish sources indicate imports of Bulgarian sunseeds at 30,000 MT. Exports of sunflower oil for the same period were at 7,400 MT to Macedonia, Serbia, Romania, Greece and Turkey.

Imports of more competitive sunflower seeds were between 4,400 MT (official data) and 11,000 MT (industry sources), from Hungary. As projected earlier (see BU7025), there were imports of close to 9,000 MT crude oil for human consumption from price competitive destinations such as Ukraine.

Currently, Bulgaria has about 20 small size biodiesel facilities. In an effort to cope with high prices, most of them stopped operating. Some switched to production of vegetable oil for human consumption. Others are trying to use recycled vegetable oil imported from Greece. Bulgaria does not have a system for collection and processing of used or waste vegetable oils, thus traders are using Greek origin product. The demand for this product is currently significant.

Intervention Agency

In October 07, the State Reserve made an effort to purchase 50,000 MT of wheat from the local market and 150,000 MT from imports to refill its stocks. Due to low buy prices, the response was minimal and no actual purchases were officially registered.

In October/November 07, the Ministry of Agriculture began to approve intervention storage facilities for wheat, barley, sorghum and rice. These warehouses are in proximity to already approved 16 intervention centers, with a capacity of above 6,000 MT each. Bulgaria has the right to store up to 500,000 MT of grains in intervention storage. Although the Intervention Agency announced the first buying in November 07, market prices were well above the intervention price and no purchases occurred to date. Due to the bad crop in 2007 and late storage licensing, the intervention system is expected to be fully operational after 2008 harvest for the intervention period November 1, 08 - May 31, 09.

Prices

Wheat: Wheat prices in January 08 reached about 250 Euro/MT for milling wheat, and 240 Euro/MT for feed wheat. Wheat flour wholesale prices vary from 370 Euro/MT to 420 Euro/MT. At a retail level the price is about 600 Euro/MT. Wheat flour prices in 2007 have increased by 56 percent (December 07 compared to December 2006). Bread retail prices have stabilized around 0.70-0.80 Euro/kilo.

Wheat for exports at FOB Black Sea port can be found at 270 Euro/MT, however, according to traders, it can not compete with Kazakh deliveries which are equally priced and have better quality characteristics. Another factor to consider for possible Bulgarian wheat exports via Black Sea, though, is the difficult/unreliable logistics for Kazakh wheat which makes Bulgarian wheat more readily available.

Barley: Feed barley is traded at about 210-240 Euro/MT. Malting barley is not available.

Sunflower: Available stocks are running out and traded at 420-450 Euro/MT. Reportedly, sunflower seeds are traded at close to \$800/MT CIF and/or DAF Turkey as of the week of January 21 which is \$60-70/MT more than a week before.

Corn: In January 08, imported Hungarian corn is traded at 240 Euro/MT (mainly in Northwestern Bulgaria), and Greek corn at 250 Euro (in Southern Bulgaria). Average corn prices are around 250 Euro/MT. In general, trade is difficult due to wide discrepancies between sell and buy prices.

Local market and government policies

Wheat

Consumption of wheat on the local market has been stable despite record high prices. The MY07/08 started with beginning stocks of about 150,000 MT. Traditionally, Bulgaria consumes about 1.1 MMT – 1.2 MMT (1.3 MMT, according to official figures) of wheat for human consumption (bread mainly). Due to severe corn deficit, demand for feed wheat was higher and is estimated at 680,000 MT (750,000 MT per Ministry of Agriculture data). Various industry sources think that current bread wheat/flour stocks are less than 600,000 MT which means that a slight deficit might be felt on the market before the new crop.

Hiking prices negatively affected mills and bakeries, especially small size facilities. Some lowered the production volume, other switched to production of higher profit products such as snacks, specialty breads and pastry but many had to shut doors.

Corn

Corn deficit and its exorbitant prices had a devastating effect on the dairy and meat industries. Corn share in feed is the highest averaging from 50 to 70 percent for various

livestock sub-sectors. Dairy farming suffered from the lack of silage. Overall, corn prices doubled while prices of milk, poultry/pork meat and eggs increased 10-40 percent. As a result, most small farmers (1-3 cows) slaughtered the animals, other have sharply reduced the production volume due to incurred losses. The Ministry of Agriculture reported a reduction in the number of dairy cattle, sheep, and buffalo of 6 percent for the last several months of 2007. Farmers, especially in the dairy sector, have massively protested for two months against Government's inability to cope with the situation, and demanded higher domestic support.

Sunflower

Bulgaria is traditionally using about 400,000 MT to 450,000 MT of sunflower seeds for production of vegetable oils for human consumption; about 3,000 MT for planting seeds and about 25,000 MT for other minor products (confectionary). Production of vegetable oil is usually around 130,000 MT and exports of crude oil are 33,000 MT to 40,000 MT.

The 07/08 crop was sufficient to meet the demand. However, due to high world and regional market prices, and external demand - especially from Turkey, Romania and Greece, local market prices have quickly moved up to record high levels. For example, in the beginning of the marketing year, the sunseeds were traded at about 300 Euro/MT, about 400 Euro/MT in December, 410 Euro/MT in early January 08 and close to 450 Euro/MT in mid-January 08, or over 40 percent increase for the last 6 months.

Sunflower seeds account for 60 -70 percent in the production cost of the vegetable oils, therefore, crushers had to increase the price of the final product as well. Thus, in 2007 its price was 79 percent higher than in 2006 (Dec.07 vs. Dec.06). Since sunflower oil is the major edible oil, its price fluctuation negatively affected consumer reactions and the overall inflation. As of today, the retail price of a liter of edible sunflower oil is 1.40 Euro-1.80 Euro. With 40 percent of consumer income spending for food, vegetable oil led the race for the fastest food product price hike in 2007.

The Bulgarian government was monitoring closely the food price changes which began in August 2007 and were the major contributor to record high, over 12 percent, annual inflation. Various agricultural and food industry associations (milling, baking, dairy and poultry) reported attempts for pressure by government institutions to lower food prices. This pressure, allegedly, had different forms - from more than frequent and more detailed tax inspections and audits, to anti-trust fines.

In mid January 2008, the Competition Protection Commission (the anti-trust body) imposed unseen to date, 1.0 million Euro fine (from 10,000 Euro to 150,000 Euro per a company) on 14 manufacturers from the oilseeds processing industry. The oilseeds industry association was also fined.

According to the Commission, manufacturers made a cartel to push the sunseeds prices upward starting from 300 Euro/MT in post-harvest time. The industry refuted government arguments and voiced their concerns that administrative interference on the market was used for achieving social and political goals.

Currently, the crushing industry in Bulgaria consists of about 120 companies of which about 20 larger manufacturers. The major players are Papas Oil (19 percent market share), Bunge (Kaliakra) (16 percent share), Vidona (12 percent share), Sunny Rays/ Zurneni Hrani Bulgaria (11 percent share), Rosa (8 percent share), Biser Oliva (5 percent share) who all together have about 72 percent of the market with the remaining companies covering 28 percent of the market. (Note: market shares as of September 2007, source: media).

Domestic support

Due to budget and technical/administrative problems, following EC decision of October 17 5185/2007/EC, the summer drought compensations were finally disbursed to farmers in November 07. Total 7.9 million leva (3.95 million Euro) were paid under the rule of 1860/2004/EC (de minimis) to about 500 farms for 22,000 HA wheat and barley completely damaged areas (See BU7025). Late payments slowed the pace of fall planting.

Winter crops planting support:

- Total 7.6 million leva (3.8 million Euro) were paid as a support for fertilizers purchases and 0.8 million leva (0.4 million Euro) for purchases of planting seeds, all destined for wheat producers. It is estimated that planting of about 200,000 HA of wheat benefited from this program;
- Eligible farmers were exempt of excise duties on fuel at a rate of 18 Euro/HA;
- The 2006 due debt of about 500 farmers to the State Fund Agriculture (major domestic support institution) for fertilizers purchases was rescheduled to be paid back as of October 1, 2008 instead of October 1, 2007.

Late in 2007, farmers went out on strike and blocked highways and streets. They appealed to the GOB to increase domestic support by allocating 140-150 million leva (75 million Euro) in country's budget for national supplementary payments (top-ups). This way farmers would be able to get 110 Euro/HA subsidy as a combination of 70 Euro/HA from the EU direct subsidies and this additional support (40 Euro/HA). According to farm organizations, local farming would not be competitive with the ag products from old-EU MS which had got much higher subsidies compared to only 25 percent of that level for the Bulgarian farmers (Note: national tops ups for 2007 could add another 30 percent so that the final subsidy and thus equal 55 percent of the old EU-15 subsidy level). In addition, farmers claimed that increased production costs due to increasing land rents and fertilizers' and fuel's costs, narrowed their profit so much that without additional domestic support many would bankrupt. Losses incurred from the lost grain and oilseeds exports (due to the weak crop) in MY2007/08 were estimated at about 500 million Euro.

At the end of 2007, the requested amount was included in the annual 2008 budget but only conditionally, if available, at the end of 2008. Thus, area payments for 2007 will remain at 70 Euro/HA for all 79,000 eligible farmers. The first disbursement of these EU funds officially started on January 21, 2008 and is planned to be completed by end-February.

Table 1. Grain and oilseeds production data, MY2007/2008, HA and MT

Grain and oilseeds production estimates, MY2007/2008, HA and MT				
Crop	Planted Area, HA	Harvested Area	Av. Yield, MT/HA	Production, MT
Wheat	1,120,500	1,094,800	2.19	2,214,000*
Winter barley	173,331	166,335	2.63	437,000
Spring barley	13,575	9,627	1.64	15,828
Rye	4,875	3,057	1.53	4,665
Triticale	4,892	4,800	1.80	8,666
Rapeseeds	45,308	43,535	1.75	76,286
Corn	363,833	195,500	1.37	270,000*
Sunflower	663,157	598,900	0.91	545,000
Source: MinAg bulletins and AgOffice estimates as of January 08				
Note: *official data is different: 2.4 MMT of wheat; 256,000 MT of corn				

Table 2. Grain and oilseeds FAS Sofia production estimates, MY2008/2009, HA and MT

Grain and oilseeds FAS Sofia production estimates, MY2008/2009, HA and MT			
Crop	Planted Area, HA	Av. Yield, MT/HA	Production, MT
Wheat	1,005,000	3.3	3,300,000
Winter barley	193,800	2.8	540,000
Spring barley	15,000	2.2	33,000
Rapeseeds	98,000	2.0	200,000
Corn	300,000	4.5	1,350,000
Sunflower	700,000	1.2	840,000

Table 3. Supply and Demand, MY07/08, major grain and oilseeds crops, 1000 MT, FAS/Sofia estimates

Supply and Demand, MY07/08, major grain and oilseeds crops, 1000 MT, FAS Sofia estimates				
	Wheat	Barley	Corn	Sunflower
Beginning Stocks	150	35	110	50
Production	2,200	453	270	545
Imports	80	5	450	25
Total Supply	2,430	493	830	620
Exports	200	150	0	120
Human Use	1,200	120	0	430
Feed Use	680	128	500	NA
Industrial Use	NA	NA	320	25
Planting seeds	280	70	10	3
Ending Stocks	70	25	0	42
Total Demand	2,430	493	830	620
Note: Exports and imports include EU and non-EU destinations				

